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ABSTRACT

To help improve school district financial management, the Association of School Business Officials at its 1980 annual meeting held a special session consisting of 20 "mini-workshops" about successful, field-proven practices in school budgeting, accounting, auditing, and other financial tasks. This document provides summaries of the session based on the "tip sheets" and supporting materials provided by each mini-workshop presenter. In the document's first section, nine presentations are covered on budgeting methods, budget comparisons with other school districts, various accounting methods and applications (including accrual, cash basis, encumbrance, fixed asset, and self-insurance accounting), retirement plan analysis, student activities accounts, and enrollment projections for financial planning. The second section, on auditing and financial reporting, offers 11 mini-workshops on internal and external auditing, fund and property accounting, monthly financial reports, statements of changes in fund balances and financial position, enterprise funds, and revenue and expenditure statements. Each presenter's name, address, and telephone number accompany the workshop material. (Author/RW)

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School Accounting Budgeting and Finance Challenges

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A series of "how-to" programs to assist school business officials meet the emerging school accounting, budgeting and finance challenges of the 1980s

Association of School Business Officials of the United States and Canada

EA 014 756

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THE ASSOCIATION OF SCHOOL BUSINESS OFFICIALS OF THE UNITED STATES AND CANADA is an international professional educational organization, incorporated not for profit, and is the oldest and largest education organization in North America devoted exclusively to the improvement of school business management. Its main objectives are to encourage the wise expenditure of taxpayers' monies, and to improve efficiency in the practice of school business management.

School Accounting Budgeting and Finance Challenges

Programs to help your school district improve its accounting procedures, budgeting methods and financial reporting

As presented during a Special Session on Accounting, Budgeting and Finance at the 66th Annual Meeting and Exhibits of the Association of School Business Officials of the United States and Canada, October 27, 1980, New Orleans, Louisiana.

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Preface

The basic, underlying professional objective of the Research Corporation of the Association of School Business Officials (RC-ASBO) is to identify and share timely, appropriate information about successful school business management programs and practices. This publication is just one example of how RC-ASBO programs meet that objective. It presents a series of programs, practices, procedures and ideas that can help school administrators meet the emerging school accounting, budgeting and finance challenges of the 1980s.

In recent years, local school system finances have attracted more and more attention from many diverse groups. Each has a legitimate interest in this information and in how a school district spends its limited funds. ASBO recognizes the interests of those groups and encourages school systems to adopt and use generally accepted accounting principles and sound budgetary and financial reporting procedures. In doing so, school districts demonstrate their financial management credibility with the publics they serve.

The information presented in this publication can help school districts enhance that credibility. In addition to sharing valuable ideas and practices, this publication provides a resource listing of the names, schools or organizations, addresses and phone numbers of many experts who are willing to share greater details about their respective programs or the information presented with other educators and representatives of private firms interested in school accounting, budgeting and finance.

Donald J. Buchan
Executive Director, RC-ASBO

Introduction and Acknowledgements

During its 66th Annual Meeting and Exhibits in New Orleans, Louisiana, October 26-30, 1980, the Association of School Business Officials of the United States and Canada presented a special educational session entitled "Accounting, Budgeting and Finance." This session presented a series of mini-workshops, each featuring a successful, field-proven practice, method or technique to improve school accounting, budgeting or finance.

The presenters at these mini-workshops were school administrators, representatives of major public accounting firms, professors and representatives from governmental entities extremely knowledgeable about school accounting.

During this Special Session on Accounting, Budgeting and Finance, each presenter described his organization's program which provided the basis for a brief written summary – a "Tip Sheet" – that was included in a "Gold Mine" Packet and distributed to everyone in attendance.

The material presented in this book is based on those tip sheets and the supporting materials submitted to the Association when each school district or organization applied for participation in the program.

ASBO acknowledges the contributions made by these presenters and by those within the presenters' respective school districts and organizations to the success of the Special Session on Accounting, Budgeting and Finance whose diligent work and dedication were responsible for developing and implementing the programs described on the following pages. All participants have agreed to have the material presented during the Special Session included in this ASBO publication so that their experiences can be shared with other school administrators across the United States and Canada.

Those who participated in the Special Session on Accounting, Budgeting and Finance at ASBO's 66th Annual Meeting and Exhibits were:

Larry A. Allen, CPA, Partner, Stewart, Beauvais & Whipple, CPA's, Port Huron, Michigan.

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Charles G. Stolberg
Editor

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Section 1

Budgeting and Accounting

Budgeting Methods

As presented by:

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What is YOUR district's approach to planning its annual budget? Is it considered to be primarily a job of estimating costs and revenues, or is it viewed as a spending plan based on plans for programs and district goals?

Budgets can be planned centrally or decentrally with the participation of many program staff members.

Present day demands for involvement on the part of staff and the public practically require decentralization of the budget planning process. In order to provide consideration for some measure of decentralization and participatory planning of the budget, you should:

1) Establish a budget planning calendar.
2) Identify individuals to be responsible for making requests for the various programs and accounts in the budget. This should be the same person who has some measure of control over the operation and spending for the program or account.
3) Encourage citizen input into the planning process. This process will depend on the philosophy of the district and the interest of the public in school affairs.
4) Make budget planning a continuing process – certain program decisions should be made well in advance of making annual budget requests. A planning calendar should be established for the year.
5) Arrange for adequate staff review.
6) Analyze requests properly and adequately.
7) Have a budget review process that is compatible with the philosophy of the Board. Information should be developed to show the Board and the public the need of the programs and functions to be financed by the

budget. Keep in mind that the adoption of a school budget is a political process. There needs to be two-way communication between the administration and the Board before the annual budget is planned. Involvement of staff members in the planning process also provides knowledgeable persons to explain the budget requests to the Board and the public. Board members are subject to pressures to add programs and to cut taxes. Because they need information to make choices when establishing district priorities, the school administration needs to understand the Board member's concerns when planning the budget.

8) Provide an ample opportunity for a public hearing on the budget. This provision is generally required by law.
9) Plan for the implementation of the adopted budget.
10) Monitor expenditures during the fiscal year. The accuracy of cost estimates and the effectiveness of planning procedures should be determined so that adjustments can be made in planning the next years' budget.

How Does Your School Budget Compare?

As presented by:

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Local School Budget Profiles

Administrators in both large and small school systems have long expressed the need for a dependable and timely series of data by which they could compare their school system's budget with budgets of school systems of similar size and expenditure levels across the United States. The Educational Research Service (ERS), as part of its continuing effort to provide objective and reliable information to school management, meets this need. A program–*ERS Local Budget Profiles*–now is one of the continuing ERS services available to school districts.

From data collected each summer, ERS will send to the superintendent in the school system that requests it a computer-prepared analysis of how that school system's budget compares with those of 18 other systems (selected by the requesting system from the entire list of systems supplying data) on selected items of revenue and expenditure for the current budget year. Each specially tailored 50-page report will rank the per pupil expenditures, revenue and so forth of the selected school systems and will also provide other benchmark data. Listed on each page of the report will be averages computed from data provided by: all participa-

ting school systems across the United States; school systems with enrollments comparable to that of the requesting system; and school systems with comparable per pupil expenditures for current operations.

School management in districts for which a specially tailored *ERS Local School Budget Profiles: A Comparative Analysis* has been prepared have a wealth of current financial data with which to compare their own system's financial profile. The *Comparative Analysis*–either in its entirety or particular parts of it–is an extremely useful and versatile management tool It can be used as an aid in making financial decisions and also in helping explain the rationale for decisions to school board members, to employees and to the general public.

Collection of Data

Each summer, budget survey forms are sent to a panel sample (stratified by enrollment group) of about 1,800 school systems across the United States. Responses from school systems in this group form the base for the national, enrollment group and per pupil expenditure group averages. In addition, all ERS subscribers who have not been selected as part of the national sample are mailed a questionaire. Both groups will be asked to provide data for the *budget* year which includes the following September.

The budget categories contained in the survey instrument have been carefully developed by ERS to address several needs: that all reporting systems use a consistant set of budget categories; that the data be relatively easy for school systems to provide; and that the *Comparative Analysis* prepared for school systems be timely and, without extensive explanation, provide understandable and usable information about the budgets of school systems being compared. All the above requirements were considered when developing the budget categories contained in the *ERS Local School Budget Profiles* survey instrument. The instrument contains basic *functional* categories plus certain key *objects*.

Use Of The Data

The requested copy of *ERS Local School Budget Profiles: A Comparative Analysis* for a school district is computer-generated on plain white paper suitable for reproduction in reports prepared by requesting school superintendents. The survey instrument, the format of the report and the data included are copyrighted by ERS; to facilitate maximum use of the *Comparative Analysis* report to a participating district, ERS grants to the superintendent of the school district which has supplied budget data and received its own *Comparative Analysis* report immediate permission to duplicate the report in as many copies as he or she deems necessary for use within the district. Superintendents are asked only to include the ERS copyright notice on all duplicated material.

Distribution of the *Comparative Analysis*–of the whole report or selected portions of it–to School Board members, administrators, teachers, other employees or to the community as a whole will be at the discretion of the school district superintendent. Regardless of whether use of the *Comparative Analysis* report is limited to a school system's business office or distributed widely, it will provide invaluable data for critical planning and evaluation.

The Educational Research Service is an independent, nonprofit corporation sponsored by the American Association of School Administrators, American Association of School Personnel Administrators, Association of School Business Officials, Council of Chief State School Officers, National Association of Elementary School Principals, National Association of Secondary School Principals National School Boards Association and National School Public Relations Association.

Accrual Accounting — Modified Accrual Accounting — Cash Basis Accounting

As presented by:

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ASBO's 1977 position: "Accrual Basis of Accounting: The accrual basis of accounting records revenue when earned or when levies are made. Expenditures are recorded as soon as they result in liabilities for benefits received. The cash basis of accounting is not permissible because it does not accurately present the financial position of the school system."

NCGA Principles, which are effective for fiscal years ending after June 30, 1980, as quoted in ASBO's 1980 publication entitled *Certificate of Excellence in Financial Reporting by School Systems*: "Accrual Basis in Governmental Accounting – The modified accrual basis of accounting should be used for Governmental type funds and the accrual basis for Proprietary Funds; Fiduciary Funds should use the basis consistent with the fund's accounting measurement objective. Nonexpendable Trust and Pension Trust Funds should use the accrual basis; Expendable Trust Funds should use the modified accrual basis. Agency Fund Assets and Liabilities should be accounted for on the modified accrual basis."

ASBO Board of Directors' position on accrual basis accounting

Governmental Accounting and Financial Reporting Principles, Statement 1, The National Council on Governmental Accounting, March 1979:

"8. The modified accrual or accrual basis of accounting, as appropriate, should be utilized in measuring financial position and operating results.

"a. *Governmental Fund* revenues and expenditures should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measureable. Expenditures should be recog-

nized in the accounting period in which the fund liability is incurred, if measureable, except for unmatured interest on general long-term debt and on special assessment indebtedness secured by interest-bearing special assessment levies, which should be recognized when due.

"b. *Proprietary Fund* revenues and expenses should be recognized on the accrual basis. Revenues should be recognized in the accounting period in which they are earned and become measureable; expenses should be recognized in the period incurred, if measureable.

"c. *Fiduciary Fund* revenues and expenses or expenditures (as appropriate) should be recognized on the basis consistent with the fund's accounting measurement objective. Nonexpendable Trust and Pension Trust Funds should be accounted for on the accrual basis; Expendable Trust Funds should be accounted for on the modified accrual basis. Agency Fund assets and liabilities should be accounted for on the modified accrual basis.

"d. *Transfers* should be recognized in the accounting period in which the interfund receivable and payable arise.

"Basis of accounting" refers to when revenue, expenditures, expenses and transfers–and the related assets and liabilities–are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement, on either the cash or the accrual method. . .

"Cash and Accrual Bases

"Under the cash basis of accounting, revenues and transfers in are not recorded in the accounts until cash is received, and expenditures or expenses (as appropriate) and transfers out are recorded when cash is disbursed. Under the accrual basis of accounting, most transactions are recorded when they occur, regardless of when cash is received or disbursed. Items not practicably measured until cash is received or disbursed are accounted for at the time in both commercial and governmental accounting, as may be items whose measurement would be approximately the same under either basis or which are immaterial.

"The *accrual* basis is the superior method of accounting for the economic resources of any organization. It results in accounting measurements based on the substance of transactions and events, rather than merely when cash is received or disbursed, and thus enhances their relevance, neutrality, timeliness, completeness, and comparability. Accordingly, the Council recommends use of the accrual basis to the fullest extent practicable in the government environment. The accrual basis is necessarily applied somewhat differently in the proprietary funds (accrual basis) than in the governmental funds (modified accrual basis), however. The cash basis of accounting is not appropriate "

"Modified Accrual Basis in Governmental Funds

"The major difference in applying the accrual concept in governmental fund accounting, as opposed to proprietary fund and commercial accounting, relate to differences in the environment and in the accounting measurement objectives. The Council believes that these modifications and adaptations for the practical and appropriate implementation of the accrual concept in governmental fund accounting are best referred to as the 'modified accrual basis' and should be applied in all governmental fund accounting and reporting."

Encumbrance Accounting: A Management Instrument for Effective Control

As presented by:

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An encumbrance is the reserving of an appropriation to indicate that funds are committed. The process of setting aside this appropriation is usually initiated by a purchase order, contract or salary commitment. The encumbrance is not the recognition of an expense or expenditure, but is an establishment of a contingency based upon the receipt of future goods or services. It ceases to be an encumbrance when payment is made or the actual liability is established.

Pronouncements by Authoritative Bodies

Governmental Accounting, Auditing, and Financial Reporting (GAAFR):

1) Encumbrance accounting should be utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control.
2) Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

American Institute of Certified Public Accountants (AICPA):

1) The *Industry Audit Guide* (Audits for State and Local Governmental Units) permitted the encumbrance method of accounting, under which

encumbrances were treated as expenditures in year-end financial statements. Under the encumbrance method of accounting, encumbrances were reported as encumbrances outstanding in a separate category between liabilities and fund equities on the balance sheet.

2) In September 1979, the AICPA Committee on State and Local Governmental Accounting eliminated this encumbrance method of accounting as being permissable for financial reporting.

Applications of Encumbrance Accounting

Encumbrance accounting is a technique of budget execution and budgetary management which can assist the financial manager in appropriate cash management. The Association of School Business Officials (ASBO) has encouraged school districts to adopt and use an accounting and reporting structure that includes budgeted appropriations, expenditures and encumbrances. Effective encumbrance accounting will assist administrators in avoiding the posibility of making expenditures in excess of appropriations and will provide an effective financial management instrument that reflects the unencumbered balance of each appropriation during the budget period.

Conclusion – Encumbrance accounting should be considered a viable technique for budgetary and financial control. Encumbrance accounting and reporting is excellent for internal district use. However, for formal financial reporting it has been recommended that if the agency intends to honor the encumbrance (such as a contract in process at year-end), then (a) encumbrances outstanding at year-end should be disclosed in the notes to the financial statements or reported as a "Reserve for Encumbrances" in the fund equity section of the balance sheet, and (b) the subsequent year's appropriations should provide authority to complete the transactions.

Fixed Asset Accounting

As presented by:

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The proper valuation and accounting for fixed assets in a large school district is necessary if we are to be able to furnish accurate financial statements based upon generally accepted accounting principles, and to maintain the proper degree of responsibility of custodianship over the most expensive item in the educational process under our jurisdiction.

Other than the ability to levy a tax, a school district has principally two major assets, its people and its property. In terms of dollars and cents at any given point in time, its holdings of property and equipment are its most valuable.

A proper accounting and control of buildings and equipment indicates to the public that we as school administrators have pride in those items entrusted into our care, that we are accountable for the proper reporting and safeguarding of these assets, and that we are attempting to utilize them efficiently in the present and the future.

The asset accounting system developed for a district should be based upon sound accounting principles relative to the custodianship of assets. First and foremost, it should attempt to conform to the balance sheet classification of assets in Handbook II, Revised. This system recommends Asset and Equity accounts as follows:

Asset Accounts:

2010 – Land
2020 – Buildings
2030 – Improvements other than Buildings
2040 – Equipment
2050 – Construction Work in Progress

Equity Accounts:

7050 – Investments in Fixed Assets (This account has sub-accounts assigned, i.e.: 01, 02, 03, etc., indicating the specific fund that originally purchased the assets)

The charges to and supporting asset ledger detail for the Land (2010) and Buildings (2010) Accounts, in our case, were available from building services files. All improvements to buildings that should be capitilized can be recorded by summarizing specific expenditures in past years from accounts payable and purchasing records.

The means of identifying, recording and controlling equipment poses a much different and more difficult situation. The following items should be considered:

1) Define how extensive the system should be.
2) Decide what information to include.
3) Determine use and output requirements.
4) Develop a numbering system to meet the needs of the systems, allowing for easy identification and unlimited expansion.

In our situation, the type of number that was decided upon to satisfy most identifiable requirements was an eight digit number recognized as follows:

	Broad Asset Category	**Specific Asset Group Identification**	**Individual Asset Number**
(Example)	2	72	01669

Five basic areas or phases in establishing and inventoring the system are easily identifiable:

1) Basic Inventory
2) Numbering

3) Valuation and Identification
4) Reporting
5) Control

The inventory of equipment on hand can be accomplished as follows:

1) Use a special worksheet to enter each item
2) Inventory should be taken by room, by building
3) Various approaches can be used to get the basic inventory, i.e.: use teachers, custodians, accounting personnel and others
4) Specialized areas can be inventoried separately

Numbering of the equipment should be done immediately after the inventory for each location has been completed. Only accounting personnel should be involved in the numbering phase to eliminate errors.

Valuation of the equipment can be accomplished by using a combination of methods:

1) Conferring with building principals or subject area specialist
2) Utilizing the resources available from school purchasing agents
3) Reference to old vendor catalogs
4) Vendors

In any large district, the use of computers is almost essential. Basic information outflows of the system should include the following:

1) Summary of equipment by fund purchased in order to comply with accounting requirements
2) Summary by building and by internal location
3) With the system as designed, any other number of special purpose combinations are possible

Control of individual items can be accomplished by:

1) Control of movement between internal locations
2) Control between buildings
3) Recording of new equipment acquisitions
4) Removal of equipment from the system

Self-Insurance Accounting—California

As presented by:

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The following information is a brief outline of self-insurance accounting generally used by school districts in California. The procedures have been adopted by the California Association of School Business Officials (CASBO), but not as of

this presentation officially by the California State Department of Education. California statutes allow school districts to become self-insured for insurable risks such as workers' compensation, unemployment insurance, liability and others.

General Concept – The overall intention of California self-insurance accounting procedures is to have regular operating funds, such as the general fund or cafeteria fund, show insurance costs, whether self-insured or insured through outside carriers, as traditional insurance "premium" expenses. One or more separate self-insurance funds capture all insurance activity on a cash basis.

Example

This example illustrates two self-insurance operations, one for workers' compensation and the other for property loss, operating in conjunction with a general fund.

GENERAL FUND

	Income		Expenses	
Beginning Balance	$1,000,000			
Income	6,800,000			
Salaries			$4,000,000	
Employee Benefits			1,000,000	#1
Supplies			500,000	
Contract/Legal			700,000	#2
Capital Outlay			300,000	
Totals	$7,800,000		$6,500,000	
Ending Balance	$1,300,000			

WORKERS' COMPENSATION FUND

	Income		Expenses
Beginning Balance	$300,000		
Income	380,000	#1	
Salaries			$ 13,000
Employee Benefits			3,000
Supplies			7,000
Contract/Legal			280,000
Capital Outlay			19,000
Totals	$680,000		$322,000
Ending Balance	$358,000		

PROPERTY LOSS FUND

	Income		Expenses
Beginning Balance	$275,000		
Income	200,000	#2	
Salaries			$ 13,000
Employee Benefits			3,000
Supplies			3,000
Contract/Legal			170,000
Capital Outlay			4,000
Totals	$535,000		$ 93,000
Ending Balance	$342,000		

Note #1: The $380,000 income to the workers' compensation fund is part of the $1,000,000 in "employee benefit" costs in the general fund.

Note #2: The $200,000 income in the property loss fund is part of the "contracts/legal" costs in the general fund.

It is important to note that the *actual* insurance expenses (cash basis) appear in the self-insurance fund. The example shows the workers' compensation fund with $380,000 in income, but only $322,000 in actual costs. The resulting fund balance of $358,000 for accounting clarity, may be further broken down into various reserve categories which might reflect unsettled claims or expectancies. However, the self-insurance fund is intended to operate on a cash basis.

Comments

This system recognizes that:

- Operating funds, such as the general fund, should show insurance costs on a "premium" basis as if paid to an outside carrier, so as to be readily understood by taxpayers and citizens who support the school system.
- *Actual* insurance expenses and losses may vary substantially from year to year, are better understood when displayed separately, and resultantly do not distort regular fund costs due to wide fluctuations.
- Self-insurance activity is best accounted for and controlled in a separate self-insurance fund.

This system *does not* treat insurance transactions between funds as interfund transfers. This allows district financial statements to be compared with one another.

If a district customarily produces a combined or composite statement of funds, it is necessary to exclude income and expense accounts of self-insurance funds so that financial activity is not duplicated. However, the assets and liabilities of self-insurance funds would be included since they are not duplicated.

If money is returned from a self-insurance fund to an operating fund such as the general fund, it must fall into two categories:

- Return of money not needed – handled as if it were a dividend by first abating the insurance premium expense of the general fund. If the return is in excess of the current year premium, the excess would be reflected as income.

- Reimbursement for loss or reimbursement for expenses – handled as an abatement to the general fund–not income.

Cash Flow Analysis of Early Retirement Plans

As presented by:

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The designing, modifying and analyzing of early retirement programs is becoming an additional area of concern for school business managers as early retirement agreements are accepted each year by both management and unions. While it may be successfully marketed to the teachers' union as making it financially feasible for those teachers near retirement to do so with minimum financial burden, the program must be of a short-and long-term cash flow savings design. It is of utmost importance to realize that the saving of money is the only purpose of an early retirement program.

Compensation of the Retirement Incentive – The business manager should consider spreading out the financial incentive payments over a set period of time. Define those individuals who are eligible under the agreement and limit the number eligible in order to adequately plan the financial impact over the life of the agreement. Define the minimum age of eligibility (e.g., age 55) and the length of service (e.g., 10 years) to your district. An early retirement list of those applying based on seniority and/or years of service to your district should be formed as this will enable you to plan your cash flow.

Analysis of previously contracted salaries – Compute the already contracted salaries for those that actually select the plan and project the maximum number of those eligible based on seniority. For future years beyond the contract, select a salary percentage increment reflecting raise and possible step increases. This total figure as compared to the total incentive figure and the total replacement costs form the grand total in measuring savings or losses within an early retirement plan.

Analysis of cash incentives – The method and amount of payments should be computed on a sliding scale. The method of payment would then be spread over a period of several years. The sliding scale allows the School Board to pay, for example, more money to a 55 year-old teacher than to a 60 year-old teacher. This is due to the fact that if the 55 year-old teacher retires early he/she will save the

district more money as opposed to a 60 year-old teacher retiring as his/her tenure is significantly shorter.

Analysis of the replacement costs – The business manager in working with the personnel office through either historical patterns or anticipated needs, would then project the placement of the new teachers to the district on the salary matrix. Retirement costs should not be projected for new teachers, with just bachelors' degrees and no experience unless, this is in reality the hiring practice. Through the same methodology present salary contract costs are determined as with the retiring teacher. The same percentages used for retiring teachers are used in the computations of raise and step increases for the replacement personnel.

Logical Assumptions – Each school district has certain unique needs and financial abilities which must be drawn upon in making school business decisions concerning early retirement plans:

1) Minimum age limits for potential retirees.
2) Maximum number of retirees under the plan.
3) Percentage factors for raise and step increases in projections.
4) Placement of new teachers on salary matrices.
5) At what age would many of these individuals normally retire anyway without any cost to the district.

Pitfalls to Avoid:

1) Consult closely with your legal counsel as some states may have severe restrictions concerning School Boards entering into these agreements.
2) Where allowable, greater dollars may be projected by investing the net cash flow for further savings.
3) Don't assume under any circumstances that early retirement plans will save money. Only by careful cost analysis can one design an effective cash flow savings design.

Tips on Managing Student Body Activity Accounts

As presented by:

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Who is responsible for student activity account money? – If your state laws are anything like Wisconsins', your school district treasurer is, and that probably means he delegates that responsibility to you. You had better have a policy that allows

you to control these funds and that allows for a complete audit, even if your state doesn't require such a policy.

Wisconsin ASBO has formed a committee to study the problem in our state, which does not prescribe specific policies or procedures. While the committee has only been active for a short period of time, we can offer several points to remember when you examine your own student activity accounting policy:

1) The large amont of money that passes through student activity accounts dictates that these accounts be managed as thoroughly and efficiently as other district accounts.
2) Every school district that has such accounts should have a policy for management of these accounts.
3) Management of student activity accounts should be in accordance with sound business practices, including budgetary and accounting procedures and thorough audits in the same manner as regular school accounts.
4) Student activity accounts must be used only for extra-curricular activities, and not to circumvent the normal budget process.
5) Districts should not allow organization advisors or building principals to have sole control of activity account funds.

School districts are advised to purchase ASBO's publication entitled: *Guidelines to Student Activity Fund Accounting*, for use as a model; and to review any proposed policy with their auditor and attorney to insure compliance with accepted audit standards and state laws. Another ASBO publication, *Internal Audit Guide for Student Acitivity Funds*, is a guide for those responsible for the audit function to help them plan, conduct, prepare and present an effective internal audit report of Student activity funds. For information on either or both of these publications, contact ASBO Headquarters.

Enrollment Projections and Financial Planning

As presented by:

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The *cohort survival* method for projecting enrollment is a relatively simple process which yields highly accurate results. Based on enrollment and school census data for previous years (at least five years is desirable), the method takes into account many variables yet can be done with a simple calculator. If accurate data are available about pre-schoolers aged less then one year, projections for all

K-12 grades can be computed for the next five years. Projections beyond five years must be based on estimates of the number of newborns.

The basic assumption underlying the cohort survival method is that past trends will continue into the future. During periods of rapid increases, the technique underestimates enrollment; during rapid declines, it overestimates the projections. An unusually high or low survival rate within the base period may also produce misleading results. These problems, which are consequences of the averaging process used, must be considered in interpreting the projections.

Four steps are required in computing the projections:

1) List the actual enrollment for each grade level and the number of preschool children by age level for each of the previous five school years.
2) Compute the annual survival rate for each grade and age level by dividing the actual number of students in a given grade (or age level) in a particular year by the actual number of students in the previous grade (or age level) in the previous year. Round the result to the nearest thousandth (third decimal place).
3) Compute the average annual survival rate for each grade and age level. For each grade and age level there will be four annual survival rates if five years were used. Sum these rates and divide by four. Round the result to the nearest thousandth.
4) Compute projections for each grade and age level by multiplying a given grade's (or age level's) average annual survival rate times the number of students in the previous grade (or age level) in the previous year. Round the result to the nearest whole student.

Trend line analysis projects the trend in enrollment for a given period of years into the future. This technique, a correlational procedure, uses a linear prediction equation; consequently, it is best computed with an electronic computer or preprogrammed pocket calculator. Projections may be made for any number of years, but the trend in the historical data must be linear for the projections to be accurate. ("Linear" data tend to fall along a straight line when graphed across time.) This technique assumes that past trends will continue but is not subject to the averaging problems noted for the cohort survival method. The trend line may be projected across time from the data for a given grade level or from a given class as it proceeds from one grade to the next.

With enrollment projections in hand, a *financial plan* should be developed to address concerns such as the following:

1) The number and types of personnel needed.
2) Methods for adding to, retraining or reducing the number of personnel.
3) Changes necessitated in the curriculum and/or organization for instruction.
4) The school plant facilities needed.
5) Methods for adding to, modifying or disposing of school plant facilities.
6) The quantity and type of needed secretarial, custodial, maintenance, transportation and food services.
7) Changes necessitated in extracurricular student activities and athletics.
8) Methods for winning community support, as well as the support of school personnel, for changes in school operations resulting from changes in enrollment.

Much of the planning for a school budget depends on the number of students to be served. Accurate enrollment projections, therefore, are critical to successful financial planning.

FIGURE I

Example of Cohort Survival Method for Enrollment Projections

Age or Grade	Actual Number 1976	1977	1978	1979	1980	Ave. ASR	Projection 1981	1982	1983	1984	1985
1-#	50	55	50	45	40						
1 #	80	80	75	70	70		59				
ASR		1.600	1.364	1.400	1.556	1.480					
2 #	90	100	95	90	82		84	71			
ASR		1.250	1.188	1.200	1.171	1.202					
3 #	120	115	105	95	81		87	89	75		
ASR		1.278	1.050	1.000	.900	1.057					
4 #	110	115	120	110	105		84	90	92	78	
ASR		.958	1.043	1.048	1.105	1.038					
Grade K #	140	150	155	145	135		135	108	116	118	100
ASR		1.364	1.348	1.208	1.227	1.287					
1 #	135	130	140	135	125		121	121	97	104	106
ASR		.928	.933	.871	.862	.898					
2 #	130	135	134	137	130		124	120	120	96	103
ASR		1.000	1.031	.978	.963	.993					
3 #	145	140	142	138	132		134	128	124	124	99
ASR		1.077	1.052	1.030	.964	1.031					
4 #	140	142	137	139	135		129	131	125	121	121
ASR		.979	.978	.979	.978	.978					
5 #	150	137	138	132	133		131	125	127	121	117
ASR		.978	.972	.964	.957	.968					
6 #	155	152	140	140	130		134	132	126	128	122
ASR		1.013	1.022	1.014	.985	1.008					
...											

Legend: # – Number
ASR – Annual Survival Rate

Example of trend line analysis for above data

K	Number = –1.5 (Year) + 3,112	140	139	138	136	134
1	Number = –1.5 (Year) + 3,100	128	127	126	124	122
2	Number = .2 (Year) – 262.4	134	134	134	134	135
3	Number = –2.8 (Year) + 5,677.8	131	128	125	123	120

D.L. Walters

Section **2**

Auditing and Financial Reporting

School District Internal and External Audits

As presented by:

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Definition of audit – An examination of the books of account, vouchers and other records of a public body institution, corporation, association, firm or person for the purpose of testing their accuracy, truth and authenticity. Auditing may be internal or external in character, that is, it may be performed by a district's own employees or by professional auditors engaged on a fee basis or a combination of both.

Internal auditing aids external audit – Auditing may be performed by district employees and/or independent public practitioners. The extent of internal auditing by district employees depends primarily upon the nature and size of the district. Internal auditing as a separate department is a management concept which has had wide use and excellent results in the commercial business world but has had limited use in the field of education since, until recently, it was considered feasible only in the larger districts. However, many internal audit functions, although often not thought of as such, are being carried out to some extent in all districts by various employees along with their other responsibilities.

With the advent of more sophisticated management techniques which are being introduced in education and the ever present money squeeze, it appears inevitable that the use of internal auditing will become more and more prevalent. Whenever possible internal auditing should be established as a separate department so that it can truly serve as an independent appraisal activity within the district offering protective and constructive service to administration. Where the activities of district and student organizations are quite complex and widely scattered, the use of a separate internal audit staff and/or interim work by external auditors is indispensable.

The Internal Auditor

The internal auditor or internal audit functions are not in competition with the

independent auditor. Both are concerned with the improvement of procedures and confirmation of what is right.

The internal auditor or internal audit functions are engaged more particularly in the improvement of accounting methods and in a continuous review of routine operations. They check to see that administration policies and procedures are being properly followed; determine the reliability of the financial data and effectiveness of internal control; identify operational problems; and make recommendations to correct inefficiencies.

The internal auditor or internal audit functions are not always able to adopt the external auditor's impartial attitude, which is essential if the interests of the administration, the public and students are to be adequately protected. This situation would be materially alleviated if a district had a separate internal audit staff who are responsible to and report directly to the governing board or superintendent.

The External Auditor

The external auditor is concerned with making an independent review and evaluation of methods and policies and also with furnishing constructive advice based on wide experience.

The external auditor is engaged more particularly for the purpose of making an examination of school district and student organization accounts and attesting to the financial presentations made by the district or student body. It is imperative that he be unbiased. He must be free of the pressures which special interests may seek to impose.

His conclusions might well range from an unqualified opinion based on the examination of financial statements of a well-administered district and student organization to the disclaimer of opinion where a poorly kept set of records are maintained, or an examination which was so restricted in scope that the auditor might have an inability to express an unqualified opinion.

Purposes of the school district or student organization audit – The auditors, internal and external, should keep in mind the following purposes of the audit as they plan and perform their corroborative procedures.

- To reach a conclusion as to whether the financial statements prepared from the accounts and records present fairly the financial position and results of operations of the school district or student organization in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year.
- To determine the propriety, mathematical accuracy and apparent legality of the financial transactions. To evaluate whether methods and procedures used comply with statutory provisions and expenditures are made within budgetary and legal provisions.
- To reach a conclusion whether financial transactions have been properly recorded. To evaluate the adequacy of accounting and other financial procedures.
- To evaluate the stewardship of those who are responsible for school district and student organization financial operations. Although administration has the responsibility for designing proper controls to detect

and prevent fraud and irregularities, the examination may bring to light fraud or irregularities.

- To determine whether the school district's or student organization's reports (to federal, state, local authorities, public and students) which are applicable to the acquisition and disposition of public and student funds, are fairly presented.
- To suggest to district officials and student organization management, improved methods and procedures which will produce information on more effective and efficient administration and to see that district and student organization policies are being followed.
- To provide other services as requested regarding management services, cost analyses, budgetary services, internal control evaluations, procedure analyses, system services and other consulting and advisory services.

Audit tests – In most audits, investigation of every transaction would not only be excessively costly, but unnecessary. Auditors base their examinations upon a review of the internal control system and tests of the records and inspection of selected transactions.

In conducting an examination of the financial records and statements of his client, the independent auditor must survey the accounting system and the general organization.

He must also consider the extent of the verification of records, which the organization provides, and the effectiveness of the internal audit staff or internal audit functions. The extent of his own auditing procedures will be influenced by these aforementioned factors.

When evidence exists that the system of internal audit and/or internal control is effective, the auditor may properly conclude that the accounting records and supporting data have a higher degree of dependability and limit his testing accordingly. When his investigation shows that the system has points of weakness, he extends the scope of his testing to a degree that he professionally deems necessary.

Other factors which enter into the planning of tests include the materiality of the item to be tested and the relative risk of the existence of irregularities.

The auditor must defer final determination of his procedures until he has a dependable understanding of the available evidence and has judged its reliability.

The external auditor should perform part of the audit during the year – He may make interim or periodic audits for the purpose of reporting on financial statements for portions of the year. He should carry our important phases of the audit work during the year even though a report will be rendered only at the year end.

One of the most important advantages of these activities is that the auditor can familiarize himself with the operations and internal control of the district at an early date. Furthermore, it enables the auditor to comment on any problem areas of the district's accounting practices so that remedial action may be instigated before the year end.

By doing some of the work at a time when the pressure of the year-end closing is not so great, the auditor is generally able to work with less inconvenience to the client's staff and can obtain more assistance from them.

Cost of auditing – Auditors should be selected in a professional manner as a physician or attorney would be selected. Meaningful and usable audit results, as well as possible increases in internal efficiencies, and the obtaining of maximum revenues should be kept in mind and not just the total cost of the audit. Such results may greatly offset the cost of the audit. Most audit fees are based on hourly rates. Cost of both internal and external auditing should be reduced by the following practices:

- By hiring the best professional and responsible auditors that can be obtained – auditors specially skilled in school accounting and auditing. Better results might be obtained if an audit committee was assigned to review both the qualifications of the auditor and the subsequent audit report.
- By encouraging the school district officials, employees and student organization personnel and student management to cooperate with the auditors in doing certain things before they arrive and to work along with them after they arrive.
- By providing adequate facilities where the auditors may do their work in semi-privacy and by providing equipment if needed.
- By centralizing accounting and adopting uniform accounting practices throughout the district and student organizations.
- By continually improving internal control, accounting practices, organization and the internal audit program.
- By preparation of the district's and student organization's annual financial report including the supplemental information, since it is the district's annual financial report which is to be audited. The auditor has often had to prepare the entire report himself in the past since the district had not done it either due to lack of time or knowledge. In any case the report containing financial statements, notes to financial statements and supplementary information is still the district's and not the auditor's.

Benefits of a System of Internal Auditing

As presented by:

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For improved control and operations, the internal auditor can:

1) Test account balances to insure transactions are properly reported;

2) Test documentation to insure transactions reported are valid school district expenditures and that standard procedures were followed in the purchasing and payment cycles, including payroll;
3) Test the system to insure that it is functioning as intended and make recommendations to make the systems more efficient, effective and responsive to the needs of the district;
4) Recommend personnel requirements or changes and recognize possible problem areas before they occur;
5) Assist in the control and safeguarding of assests; and
6) Evaluate and test input-output controls in EDP systems

Responsibilities of an internal auditor in a public school system:

1) Provide a system of internal auditing and control for the school's accounting, system;
2) Perform periodic audits of separate funds and specific areas of accounting, for example, student activities, payroll, athletics and so on;
3) Review trial balance monthly for questionable account balances and large increases in expenditures;
4) Examine operating controls and determine extent operating objectives are met;
5) Furnish management with objective analyses, appraisals and recommendations of the system in writing;
6) Follow up on recommendations to determine that recommendations:
   - cannot or need not be implemented
   - are in error
   - are in effect
7) Review accounting policies for compliance with applicable governmental accounting principles and with local, state/provincial and federal regulations;
8) Review separation of duties and authority between persons responsible for assets of the district and those responsible for recording transactions affecting such assets;
9) Detect and prevent fraud and error;
10) Define internal audit procedures, goals and responsibilities;
11) Understand departmental functions; how they interact; and verify the compliance thereof;
12) Prepare and update an organization chart;
13) Prepare a flow chart of paperwork and operations and update as needed;
14) Review data processing programs prior to implementation;
15) Define record retention policies;
16) Consider any phase of activity wherein the internal auditor can be of service to management; and
17) Perform other special assignments as requested.

Relationship of an internal auditor to other staff and to external auditors – The internal auditor is basically a managerial control and should:

- Report to the superintendent, preferably, for independence. The internal auditor should not be supervised by personnel responsible for areas which are subject to review by the auditor.

- Have sufficient status in the organizational chart to effectively carry out his responsibilities
- Assist the external auditors, including the CPA and the federal, state/provincial and local auditors, by preparing required schedules and answering questions
- To the extent that the external auditor can rely on the work of the internal auditor, the external auditor may be able to reduce the scope of his examination, thereby resulting in reduced audit fees

A Summary of Fund Accounting Under NCGA Statement 1

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1980 GAAFR Issued by MFOA

In 1968, the Municipal Finance Officers Association of the United States and Canada (MFOA) published *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR or the "blue book"). 1968 GAAFR was an official pronouncement of the National Council on Governmental Accounting (NCGA). It has gained widespread acceptance and acknowledgement as the primary authoritative statement on the application of generally accepted accounting principles (GAAP) to state and local governments.

In March 1979, the NCGA issued Statement 1, *Governmental Accounting and Financial Reporting Principles*, which restated the principles of 1968 GAAFR. Statement 1 provisions are effective for fiscal years ending after June 30, 1980 with earlier application encouraged.

MFOA has issued a 1980 edition of GAAFR (See Figure II). Unlike the 1968 GAAFR and Statement 1, the 1980 GAAFR neither establishes nor authoritatively interprets GAAP for governments. Rather, the 1980 GAAFR is intended to provide government finance officers, elected officials, independent auditors and others with detailed guidance to the effective application of Statement 1 principles to the accounting and financial reporting activities of state and local governments. The text of Statement 1 is reproduced in an appendix to 1980 GAAFR.

In 1974, the American Institute of Certified Public Accountants (AICPA) published an Industry Audit Guide, *Audits of State and Local Governmental Units*, which endorsed the 1968 GAAFR's principles. The Audit Guide stated, "GAAFR's principles do not represent a complete and separate body of accounting principles,

FIGURE II
A SUMMARY OF FUND ACCOUNTING

Fund Type	Fund Categories (1)	Measurement Focus (3)	Basis of Accounting (7)	Primary Means of Spending Control (9)
General	Governmental	Spending (4)	Modified Accrual	Annual Operating Budget (8)
Special Revenue	Governmental	Spending (4)	Modified Accrual	Annual Operating Budget (8)
Debt Service	Governmental	Spending (4)	Modified Accrual	Bond Indentures
Capital Projects	Governmental	Spending (4)	Modified Accrual	Bond Indentures
Special Assessment	Governmental	Spending (4)	Modified Accrual	State Laws
Enterprise	Proprietary	Capital Maintenance (6)	Accrual	Modified Marketplace
Internal Service	Proprietary	Capital Maintenance (6)	Accrual	Indirect Budgetary
Trust and Agency:	Fiduciary			
Expendable Trust		Spending (4)	Modified Accrual	State Laws
Nonexpendable Trust		Capital Maintenance (6)	Accrual	State Laws
Pension Trust		Capital Maintenance (6)	Accrual	State Laws
Agency (2)			Modified Accrual	

1) Statement 1 further classified 1968 GAAFR's eight fund types into three broad categories – governmental, proprietary, and fiduciary – and indicated that all are accounted for as either governmental or proprietary. Expendable Trust Funds are accounted for like governmental funds, while Nonexpendable Trust and Pension Trust Funds are accounted for like proprietary funds.
2) Under Statement 1, Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
3) Statement 1 clarified the distinction between the accounting concepts of "measurement focus" and "basis of accounting." The "measurement focus" determines *what* is being measured (expenditures or expenses), while the "basis of accounting" determines *when* it is measured.
4) All governmental funds and Expendable Trust Funds are accounted for using a spending measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their fund balance (net current assets) is considered a measure of "available spendable resources." (The exception to this general rule is for long-term special assessment bonds payable, which are reported on Special Assessment Fund balance sheets.) Their operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.
5) Fixed assets used in governmental fund operations and long-term liabilities (other than special assessment bonds) expected to be financed from governmental funds are accounted for in the General Fixed Assets Account Group and the General Long-Term Debt Account Group respectively.
6) All proprietary funds and Nonexpendable Trust and Pension Trust Funds are accounted for using a capital maintenance measurement focus. This means that all assets used in their operations and all liabilities expected to be financed from them are included on their balance sheets. Their funds equity (net total assets) is segregated into contributed capital and retained earnings components. Their operating statements present increases revenues) and decreases (expenses) in net total assets.
7) In Statement 1, the NCGA purposely coordinated the GAAP accounting and financial reporting treatments applied to all governmental funds on the one hand and to all proprietary funds on the other. In so doing, it shifted Capital Projects, Special Assessment, and Expendable Trust Funds from the accrual to the modified accrual basis of accounting.
8) Under Statement 1, it is *a GAAP requirement* that governmental GAAP financial reports include comparisons of approved budgeted amounts with actual results of operations *on the budgetary basis actually used to control operations*. Such comparisons are required for the General Fund and Special Revenue. Funds and other governmental funds for which annual budgets are legally adopted.
9) Different primary means of spending control are employed in the various fund types. The most common primary means are indicated above. Capital projects funds may also involve grant requirements. Most Enterprise Funds involve revenue bond indentures.

but rather are a part of the whole body guide, they constitute generally accepted accounting principles."

In August 1980, the AICPA issued Statement of Position 80-2, *Accounting and Financial Reporting by Governmental Units* which provides similar recognition for the principles in Statement 1. Certain provisions in the 1974 AICPA Audit Guide conflicted with related provisions in 1968 GAAFR. These conflicts were eliminated in the development of Statement 1 and Statement of Position 80-2.

Copies of NCGA Statement 1 and 1980 GAAFR may be purchased from MFOA, 180 North Michigan, Chicago, IL 60601. Phone (312) 977-9700.

Fund Accounting

As presented by:

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DEFINITIONS

NCGA – National Council on Governmental Accounting (National Committee on Governmental Accounting before 1974): develops, promulgates and interprets principles of accounting, financial reporting and related financial management activities for governments in the United States and Canada.

GAAFR – NCGA, *Governmental Accounting, Auditing and Financial Reporting*, 1968, 234 pp.

STATEMENT 1 – NCGA, Statement 1, *Governmental Accounting and Financial Reporting Principles*, 1979, 49 pp.

FUND – A fiscal and accounting entity with its own assets, liabilities and fund balance.

ACCRUAL – The basis of accounting under which revenues are recorded when earned and expenditures are recorded as soon as the liability (obligation) is incurred.

MODIFIED ACCRUAL – The basis of accounting under which revenues are recorded when they become available and measureable and expenditures are recorded as soon as the liability (obligation) is incurred.

FUND ACCOUNTING

FUND CATEGORIES – Governmental, Proprietary and Fiduciary.

FUND TYPES – General, Special Revenue, Capital Projects, Debt Service, Special Assessments, Enterprise, Special Assessments and Trust and Agency.

GOVERNMENTAL FUNDS – General, Special Revenue, Capital Projects, Debt Service and Special Assessment Funds

(a) These funds are grouped because of their similarity in "source and disposition", "expendable", or "government-type" nature.

FIGURE III
NCGA POSITIONS COMPARISON

Statement 1 (1979)	GAAFR (1968)	Changes
TYPES OF FUNDS The following types of funds should be used by state and local governments:	**TYPES OF FUNDS** The following types of funds are recognized and should be used in accounting for governmental financial operations as indicated.	
GOVERNMENTAL FUNDS		
1) **The General Fund** – to account for all financial resources except those required to be accounted for in another	1) The General Fund to account for all financial transactions not properly accounted for in another fund.	1) Classification by governmental, proprietary and fiduciary.
2) **Special Revenue Funds** – to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.	2) Special Revenue Funds to account for the proceeds of specific revenue sources (other than special assessments) or to finance specified activities as required by law or administrative regulation.	
3) **Capital Projects Funds** – to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, Special Assessment Funds, and Trust Funds).	4) Capital Projects Funds to account for the receipt and disbursement of moneys used for the acquisition of capital facilities other than those financed by special assessment and enterprise funds.	
4) **Debt Service Funds** – to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.	3) Debt Service Funds to account for the payment of interest and principal on long-term debt other than special assessment and revenue bonds.	
5) **Special Assessment Funds** – to account for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.	8) Special Assessment Funds to account for special assessments levied to finance public improvements or services deemed to benefit the properties against which the assessments are levied.	

(Figure III continued on next page)

Figure III Continued – NCGA Positions Comparisons

PROPRIETARY FUNDS		
6) **Enterprise Funds** – to account for operations (a) that are financed and operated in a manner similar to private business enterprises–where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.	5) Enterprise Funds to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges by users of such services.	2) Clarification of and permissive expansion of Enterprise Fund criteria.
7) **Internal Service Funds** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.	7) Intragovernmental Service Funds to account for the financing of special activities and services performed by a designated organization unit within a governmental jurisdiction for other organization units within the same governmental jurisdiction.	3) Change in name to Internal Service Fund from Intra-governmental Service Fund and inclusion of other governments.
FIDUCIARY FUNDS		4) Fiduciary funds are like either governmental or proprietary funds.
8) **Trust and Agency Funds** – to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, (c) Pension Trust Funds, and (d) Agency Funds.	6) Trust and Agency Funds to account for assets held by a governmental unit as trustee or agent for individuals, private organizations, and other governmental units.	5) Trust Funds separately identified

(b) Governmental funds account for the acquisition, use and balances of expendable financial resources and the related current liabilities.
(c) Governmental funds' measurement focus determines financial position (revenues, expenditures and changes in fund balance).
(d) Governmental funds' revenues and expenditures are recognized on the "modified accrual basis".

PROPRIETARY FUNDS – (Enterprise and Internal Service Funds)

(a) These "income-determination", "non-expendable", or "commercial-type" funds are similar to business enterprises.
(b) Proprietary funds account for all assets, liabilities and equities and match revenues and expenses to determine net income and capital maintenance.
(c) Accounting and reporting follows GAAP applicable to similar business enterprises.
(d) Proprietary funds' measurement focus is on net income, financial position and changes in financial position. The determination of net income, capital maintenance and/or cost of services follows GAAP applicable to similar business enterprises (revenues, expenses, and changes in retained earnings (or equity)).

FIDUCIARY FUNDS – (Trust and Agency Funds)

(a) Accounts for assets held in a trustee or agency capacity – separate category because of this relationship.
(b) Depending on their nature, Trust Funds are classified for accounting and measurement purposes like governmental and proprietary.
(c) Fiduciary funds' measurement focus is like either governmental (expendable Trust Funds) or proprietary (Non-expendable Trust and Pension Trust Funds) funds. (since Agency Funds are purely custodial, they do not measure results of operations.)

Monthly Reporting in Accordance With GAAFR Statement 1 (Are you telling it like it is?)

As presented by:
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GAAFR Statement 1, issued in March, 1979, is the first restatement of the principles of Governmental Accounting, Auditing and Financial Reporting (GAAFR)

which was published in 1968 by the Municipal Finance Officers Association (MFOA). It updates, clarifies and amplifies governmental accounting and financial reporting.

One of its major provisions is the issuance of "Combined" balance sheets and statements of revenues and expenditures. These are intended to be a part of the basic financial statements, referred to as "General Purpose Financial Statements" (GPFS), which present a condensed summary of the financial condition of a School District.

An example of a combined balance sheet is presented as Figure IV. This, along with a combined statement of revenues and expenditures, has been used very successfully during the past year by a major school district in Michigan.

Advantages of Combined Statements

1) Presents the financial condition of a school district in a concise two-page document.
2) Greater acceptance and understanding by the news media.
3) Provides the public with an overview of the total operations of the School District.
4) Much less confusing than the former multi-page monthly statements by Fund.
5) Easier to explain various funds; their role and significance.

These do not, of course, replace the more detailed actual to budget statements That the Board gets monthly for analysis purposes but are intended for issuance to the general public.

Property Accounting for Acquisitions and Reconciliation to the General Ledger

As presented by:

Suzette S. Pope, RSBO
Chief Accountant
Dade County Public Schools
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Are you in compliance with state/provincial laws regarding the accountability of fixed assets? Most state statutes prescribe regulations for the acquisition, accountability and proper disposal of all tangible personal property which is defined as: Non-consumable nature, value of which is $100.00 or more, and has a normal expected life of one year or more.

FIGURE IV
ABC SCHOOL DISTRICT
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1980

	Governmental Fund Types				Fiduciary Fund Type	Account Groups		Totals	
	General	Special Revenue	Debt Retirement	Building and Site	Agency	Property	Long-Term Debt	June 30, 1980	June 30, 1979
ASSETS									
Cash	$ 140,893	$19,038	$ 810	$45,751	$ 74,042	$ –	$ –	$ 280,534	$ 1,825,276
Investments	2,205,927	–	549,000	–	41,000	–	–	2,795,927	2,688,475
Accounts receivable	253,445	39,849	19,139	–	–	–	–	312,433	478,359
Taxes receivable	42,669	–	17,743	–	–	–	–	60,412	73,768
Due from other funds	66,033	281	–	14,783	3,826	–	–	84,923	107,334
Inventory at cost	398,522	24,368	–	–	–	–	–	422,920	407,800
Prepaid expense	43,741	–	–	–	–	–	–	43,741	4,749
Land	–	–	–	–	–	5,439,000	–	5,439,000	5,439,000
Buildings and additions	–	–	–	–	–	47,336,867	–	47,336,867	47,138,976
Equipment	–	–	–	–	–	4,974,045	–	4,974,045	4,812,584
Vehicles	–	–	–	–	–	1,737,074	–	1,737,074	1,658,250
Amount available in Debt Service Funds	–	–	–	–	–	–	586,691	586,691	522,021
Amount to be provided for retirement of general long-term debt	–	–	–	–	–	–	13,000,064	13,000,064	14,017,906
	$3,151,260	$83,536	$586,692	$60,534	$118,868	$59,486,986	$13,586,755	$77,074,631	$79,174,498
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable	$ 262,635	$41,648	$ –	$28,988	$ –	$ –	$ –	$ 333,271	$ 341,385
Accrued payroll	2,151,346	2,643	–	–	–	–	–	2,153,989	2,229,247
Accrued expenses and withholdings	905,454	–	–	–	–	–	–	905,454	907,236
Due to student groups	–	–	–	–	118,809	–	–	118,809	141,266
Due to other funds	18,635	39,245	–	26,984	59	–	–	84,923	107,335
Deferred revenue	16,877	–	–	–	–	–	–	16,877	2,280
Bonds and notes payable	–	–	–	–	–	–	13,586,755	13,586,755	14,539,927
	3,354,947	83,536	–	55,972	118,868	–	13,586,755	17,200,078	18,268,676
Fund Equity:									
Investment in general fixed assets	–	–	–	–	–	59,486,986	–	59,486,986	59,048,810
Fund balances (deficit)	(203,687)	–	586,692	4,562	–	–	–	387,567	1,857,012
	(203,687)	–	586,692	4,562	–	59,486,986	–	59,874,553	60,905,822
	$3,151,260	$83,536	$586,692	$60,534	$118,868	$59,486,986	$13,586,755	$77,074,631	$79,174,498

Several benefits are derived from a good system of property management. Among these are:

1) Fixes responsibility for all non-expendable tangible personal property.
2) Provides proper accountability of taxpayer expenditures for capital outlay items.
3) Presents useful information in purchasing by assisting in evaluation of different brands and facilitating a more orderly system of replacement.
4) Offers management a tool for more prudent long-range decisions.
5) Facilitates the establishment of losses from fire, theft and vandalism.

The primary requirements for this property accounting system include:

1) Computerized subsidiary system with multi applications.
2) Property record data base established by responsibility center, i.e., school, special center and administrative department.
3) Acquisitions are recorded at cost.
4) All controllable property is marked with unique identifying numbers, (dual markers include aluminum foil decal and double marking or scribing for permanent identity).
5) Annual physical audits are performed to verify the existence of property, and these site inspections include grading conditions of equipment.
6) Actual physical inventories are reconciled to property accounting records.
7) For accountability, tabulations are finalized by property auditors who conduct an exit interview with the responsible administrator.
8) The physical inventory is then forwarded to property accounting to enter necessary adjustments to property master files to update that center.
9) A computerized report is then produced for any unlocated property, as a result of the physical audit, which report is sent in duplicate to the responsible administrator, requiring acknowledgement, and one signed copy to be returned.
10) A copy of the report is sent concurrently to the superior for information, administrative follow up and corrective action, and a signed copy must be returned to acknowlege receipt of the information. Line responsibility is well defined by Board policy.
11) Summary reports are generated to reflect total number and dollar value of all transactions affecting property as follows:
    - Security supported losses (theft and vandalism)
    - Dispositions (broken or damaged, unrepairable and obsolescense)
    - Unlocated (temporarily misplaced, transfer incomplete, reason unknown).
    - Recoveries (previously reported as unlocated or stolen)
12) A report is made to the Board for review, and approval after which the General Ledger adjustment is made.

To facilitate rapid and extensive data retrieval, the data base is structured to capture all probable fields of information, such as:

1) Class (function)
2) Category
3) Purchase order number
4) Acquisition cost, or donor value

5) Serial number, if applicable
6) Source of acquisition
7) Description
8) Property control number assigned
9) Acquisition date
10) Program number (optional, but useful to federal and categorical projects)
11) Activity date
12) History data
13) Condition of property

Rigid procedures are required in the prompt reporting of break-ins, damages or theft, due to illegal entry. Proper forms and authorization are then the basis for subsequent replacement of property, chargeable to a unique program which accumulates total expenditures for such stolen property. The Security Department is responsible for investigative efforts, and recovery of any loss, reporting same to the Property Accounting Department. It is the Board's policy to hold principals and administrators responsible, and clearly designates that individual as the custodian of all property assigned to his/her school/center. Adequate control procedures as well as supervision are prerequisites to acceptable property management.

All property acquisitions are summarized by object code in a special computer report generated from the accounts payable system. This output is reconciled monthly to the acquisition input data, in the property accounting system, to assure that all nonexpendable property is correctly captured for the Fixed Asset General Ledger. Computerized reports in 21 different formats, and many more limited (mini-master formats) may be produced quickly by simply coding minimal information on a Report Request form and forwarding to the Data Processing Center. These reports satisfy management information needs, local and state agencies, and various audit functions, and are in compliance with the Auditor General requirements. The property accounting system is cost effective and eliminates manual calculations, while providing current status reports, based upon timely physical audits.

Statement of Changes in Fund Balances

As presented by:

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Major Changes have Occurred Due to Recent Pronouncements!

For all practical purposes, this statement should only rarely appear as a separate

financial statement. NCGA Statement No. 1 recommends that changes in fund balances or retained earnings be presented in the Statement of Revenues, Expenditures and Changes in Fund Balance for governmental fund types or the Statement of Revenues, Expenses and Changes in Retained Earnings for proprietary fund types. In a nutshell, the separate Statement of Changes in Fund Balance has been merged out of existence.

Key Considerations for Reporting Changes in Fund Balance

1) Report all changes in fund balances as a part of the statements of operations. Changes in fund balances should appear on combined, combining and individual fund statements of operations.
2) Prior period items should be limited to material accounting errors or those accounting changes which require retroactive restatement only. Other items should be run through current period operations.
3) Only residual equity transfers are reported as changes in fund balance. All other transfers are treated as other financing sources (uses) in the statement of operations.

EXAMPLE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (Summarized)

Revenues (list in appropriate detail)	$8,000,000
Expenditures (list in appropriate detail)	7,900,000
Excess of Revenues over Expenditures	100,000
Other Financing Sources (Uses) (list in appropriate detail)	(50,000)
Excess of Revenues and Other Sources over Expenditures and Other Uses	50,000
Fund Balance – Beginning of Period	1,200,000
Residual Equity Transfer	100,000
Fund Balance – End of Period	$1,350,000

EXAMPLE WITH RESTATEMENT

Fund Balance – Beginning of Period – As Previously Reported	$1,200,000
Restatement (Whopping Big Error)	(900,000)
Fund Balance – Beginning of Period – As Restated	300,000
Excess of Revenues and Other Sources over Expenditures and Other Uses	50,000
Residual Equity Transfer	100,000
Fund Balance – End of Period	$ 450,000

A Review of the Usefulness of the Statement of Changes in Financial Position

As presented by:
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What are the current requirements for a Statement of Changes in Financial Position? The National Council on Governmental Accounting (NCGA) in *Governmental Accounting and Financial Reporting* (GAAFR) requires a Statement of Changes in Financial Position only for proprietary funds; not for the General Fund and therefore it is not required for most school districts.

ASBO's Certificate of Excellence program requires a Statement of Financial Resources and Their Application.

For Profit-Oriented Business Enterprises, the American Institute of Certified Public Accountants (AICPA) in Accounting Principles Board (APB) Opinion No. 19 required the presentation of a Statement of Changes in Financial Position.

What information should be included in a Statement of Changes in Financial Position?

Sources of Financial Resources:

- Revenues
- Decrease in assets
- Increase in liabilities, e.g., State aid or tax anticiapation notes
- Transfers

Application of Financial Resources

- Expenditures
- Increase in assets, e.g., receivables from state/provincial and federal sources; inventories; and delinquent property taxes
- Transfers

Why might a Statement of Changes in Financial Position be useful and informative?

- Summarizes financing, investing and operating activity in a single statement.
- May highlight changing liquidity patterns – for example: increasing delinquent property taxes may jeopardize a school district's financial liquidity even though its fund equity is increaseng.
- Emphasizes liquidity which is as important as fund equity in evaluating a district's financial position.

Enterprise Funds

As presented by:
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How and why do the objectives of Enterprise Fund Accounting differ from those of other district funds? In general, Enterprise Fund Accounting parallels that which would be found in a private business enterprise rather than the accounting used for other district funds. This is principally because funding of the enterprise operation is provided by users or because of a desire to be able to compare the enterprise's operating results to the operating results of similar private enterprises.

According to Statement 1 of the National Council on Governmental Accounting, Enterprise Funds are used "to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes."

What are the Generally Accepted Accounting Principles that will meet these differing needs and how can they be implemented? The generally accepted accounting principles and other practices to be followed should include:

1) Individual enterprise services should be accounted for in separate Enterprise Funds.
2) Enterprise Fund financial records should be maintained on the accrual basis of accounting, whereby all revenues are recorded when earned and all expenditures are recorded when they have been reduced to a legal or contractual obligation to pay.
3) Since the emphasis of Enterprise Fund accounting is on determining reporting results of operations rather than accounting for and reporting the sources and uses of funds, as is the emphasis in accounting for other district funds, the chart of accounts used in an enterprise fund will be comparable to that of a private business enterprise (i.e., sales, cost of sales, selling and administrative expenses and the like or as is deemed appropriate considering the nature of the enterprise).
4) All costs incurred by the enterprise relative to providing the goods or services are to be charged as expenses of the Enterprise Fund. These costs

include depreciation and charges for services provided to the enterprise by other district funds.

- Depreciation should be computed on the basis of the estimated useful life of the fixed assets utilized by the enterprises, taking into account the proportional use of such assets if they are also employed by other enterprises or district funds. The depreciation method utilized (i.e., straight line, declining balance and so on) should be clearly set forth in the Enterprise Fund financial statements.
- Charges for goods or services provided to the enterprise by other district funds should be based (priced) as though they were provided by parties external to the district.

5) The cost of inventories of materials and supplies, whether produced or purchased for use or resale by the enterprise, are recognized as expenses when they are sold or consumed. Accordingly, the units on hand at a given point in time should be valued at the lower of cost or market and carried as an asset in the enterprise fund financial statements. Cost would generally be determined by either the first-in, first-out method or retail method for a district. The method of determining inventory cost should be clearly set forth in the enterprise fund financial statements.

6) Flexible budgets are generally used to plan, control and evaluate Enterprise Funds rather than the fixed dollar budgets used for other district funds. Flexible dugets are necessary to recognize the relationship of Enterprise Fund revenues and expenditures to changes in the levels of service caused by changes in consumer demand for the enterprise's goods or services (i.e., greater demand generates more revenues which in turn generate additional expenditures).

An Enterprise Fund should generally be established at the commencement of the enterprise operation. The accounting principles utilized to account for the operation should be consistently applied. Failure to consistently classify enterprise revenues and expenditures and to consistently apply accounting principles (i.e., depreciation methods, inventory cost method) will result in financial statements that cannot be compared from period to period and to the results of operations of similar enterprises.

The Statement of Revenue and Expenditure

As presented by:
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As we think of education in terms of the role it plays and the function it performs in educating a free society, so also the Statement of Revenue and Expendi-

tures performs a role of communicating the function and financial operation of the school district.

The Statement of Revenue and Expenditures communicates in various forms:

1) *Public relations instrument:* Communicates to the general public which supports the schools.
2) *Management Tool:* Provides for economic studies, budget preparation, revenue and expenditure forecasting, actual expenditure and cost control, a communications device to the directors, administrators and managers.
3) *Research Data:* Reporting to other fiscal agencies, provides comparable cost data, provides for State financial reports.

To Poperly communicate specific data the format of the Statement of Revenue should include:

Estimated Revenue
Actual Monthly Revenue
Calendar Year-To-Date Revenue
Fiscal Year Revenue

Sources of Revenue:
Local Revenue (list)
State Revenue (list)
Federal Revenue (list)
Total Revenue

"Statement of Expenditures" – To be a useful communicative device, the format should provide for all or a combination of the following information:

Appropriations
Monthly Expenditures
Calendar Year Expenditures
Encumberances Unpaid
Unencumbered Balance

The Expenditures are classified by:

Fund
Function
Object
Special Cost Center
Subject
Instructional Level
Job Assignment
Operation Level

Fund: General Fund, Debt Service, Restricted Funds
Function: Purpose or activity – Instruction, Supporting Services, Community

Services, Extracurricular Services, Debt Services, Non Programed Charges, Contingencies, Other.

Object: Service or commodity obtained as the result of a specific expenditure:

1) Personal Services
2) Employees Retirement and Insurance Benefits
3) Other Employee Benefits
4) Purchased Services
5) Supplies and Materials
6) Capital Outlay
7) Capital Outlay Replacement
8) Other

Special Cost Center: Used to track receipts and expenditures associated with individual activities which are part of a multi-purpose program which are time and event dependent.

Subject Code: Selected components of subject matter used by educational entities throughout the states.

Instructional Level: The accountability of a school district by instructional organization level or by grade level.

Job Assignment: Groups into general categories the kinds of work staff members perform within the school district and divides these categories into activity assignments describing the major activities of each position.

Operational Unit: Denotes the location of educational activities for organizational purposes.

An Overview of ASBO's Certificate of Excellence Program

As presented by:

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Purpose of the Program

The four primary purposes of ASBO's Certificate of Excellence Program in Financial Reporting are to:

1) Encourage school systems to adopt and use generally accepted accounting principles.
2) Encourage school systems to adopt sound budgetary and financial reporting procedures.

3) Recognize excellence in school financial reporting.
4) Contribute to the enhancement of credibility of financial management of school systems by recognizing and publicizing excellence in school financial management of school systems by recognizing and publicizing excellence in school financial reporting.

Meaning of the Award

The Certificate of Excellence in Financial Reporting by School Systems is an Award of recognition granted by the Association of School Business Officials of the United States and Canada. The Award certifies that the recipient school system has presented its Comprehensive Annual Financial Report to the ASBO Panel of Review for critical review and evaluation and that the report was judged to have complied with the principles and practices of financial reporting recognized by ASBO.

Receiving the Award is recognition that a school system has met the highest standards of excellence in school financial reporting.

Standards and Principles

The standards used in the Certificate of Excellence Program are based on generally accepted accounting principles (GAAP).

The primary sources of generally accepted accounting principles for school systems when the Program was revised were:

- *U.S. Office of Education,* Handbook II "Financial Accounting: Classifications and Standard Terminology for Local and State School Systems" and Handbook II-B, "Principles of Public School Accounting".
- *National Council on Governmental Accounting (NCGA),* Statement 1 "Governmental Accounting and Financial Reporting Principles".
- *American Institute of Certified Public Accountants (AICPA),* Industry Audit Guide "Audits of State and Local Governmental Units".
- *Financial Accounting Standards Board (FASB)*

Handbook II, second revision as drafted (in 1980) incorporates the NCGA Statement 1 principles.

The AICPA Committee on State and Local Government Accounting has issued a "Statement of Position" to amend its Industry Audit Guide. This amendment recognizes NCGA Statement 1 as an authoritative modification of GAAFR (Governmental Accounting, Auditing and Financial Reporting), replaces references to GAAFR with references to NCGA Statement 1, and states that . . . "presentation in accordance with Statement 1 should be considered to be in conformity with generally accepted accounting principles."

The NCGA Principles, which are effective for fiscal years ending after June 30, 1980, are summarized as follows:

1) *Accounting and Reporting Capabilities* – A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

2) *Fund Accounting Systems* – A governmental accounting system must be organized on a fund basis.
3) *Types of Funds and Account Groups* – Only seven fund types – General, Special Revenue, Debt Service, Capital Projects, Enterprise, Internal Service and Trust and Agency – and two account groups – General Fixed Assets and General Long-term Debt – should be used.
4) *Number of Funds* – A governmental unit should establish and maintain the least number of funds possible.
5) *General Fixed Assets And Long-Term Debt* – Accounting for Fixed Assets and Long-term Liabilities not related to a specific fund should be accounted for in the General Fixed Assets and General Long-Term Debt Account Groups, respectively.
6) *Valuation of Fixed Assets* – With certain minor exceptions, Fixed Assets should be recorded at cost or estimated cost.
7) *Depreciation of Fixed Assets* – Depreciation of General Fixed Assets should not be recorded in the accounts of governmental funds but accumulated depreciation may be recorded in the General Fixed Assets Account Group. Depreciation of Fixed Assets should be recorded in the accounts of Proprietary funds and in those Trust Funds where expenses, net income, and/or capital maintenance are measured.
8) *Accrual Basis in Governmental Accounting* – The modified accrual basis of accounting should be used for Governmental type funds and the accrual basis for Proprietary Funds. Fiduciary Funds should use the basis consistent with the fund's accounting measurement objective. Non-expendable Trust and Pension Trust Funds should use the accrual basis; Expendable Trust Funds should use the modified accrual basis. Agency Fund Assets and Liabilities should be accounted for on the modified accrual basis.
9) *Budgeting, Budgetary Control and Budgetary Reporting* – Every governmental unit should adopt annual operating budgets and certain of those budgets should be reported in the financial statements.
10) *Transfer, Revenue, Expenditure and Expense Account Classification* – A governmental accounting system should provide for the classification of revenues, expenditures and expenses into certain specific categories.
11) *Common Terminology and Classifications* – A governmental accounting system should consistently utilize terminology and classifications common to the funds maintained.
12) *Interim and Annual Financial Reports* – Interim financial reports (format and content unspecified) and annual financial reports (with format and content unspecified) and annual financial reports (with format and content specified) should be issued by every governmental unit. A comprehansive annual report covering all funds and account groups (as discussed later in this document) should be prepared. General purpose financial statements may be issued separately from a comprehensive annual financial report. The Combined Overview Section of Comprehensive Annual Financial Report is designed to be "liftable" and this will be the content of the General Purpose Financial Statements. Such Statements will include the basic financial statements and notes to the financial statements that

are essential to fair presentation of financial position, results of operations and changes in financial position for Proprietary funds.

NCGA Statement 1 provides an explanation of these items in greater detail. The ASBO Certificate of Excellence Award will be granted to those entities submitting Comprehensive Annual Financial Reports in compliance with these accounting and reporting standards.

Process of Review and Award

The process by which a school system's financial report is evaluated under the ASBO Certificate of Excellence Program includes an examination of the financial reports by a Panel of Review, the approval or non-approval of the Award accompanied by a letter of contructive comment, the granting of the Award and appropriate publicity.

Financial reports submitted for review and evaluation undergo a rigorous examination by a panel of accounting experts selected from ASBO Business Associate members who are Certified Public Accountants of accounting firms and practicing school business officials with expertise in school accounting. While the members of the various panels of review are made public, the confidentiality of the review process is insured by not divulging which panel members review a particular school system's financial reports.

Input on each submission from panel members is synthesized into a letter of constructive comment by the panel Chairmen and forwarded to the applicant school system over the signature of ASBO's Executive Director. This letter is provided whether the Award is granted or denied. In the letter of constructive comment, major and minor reporting deficiencies are noted and suggestions for improvement are presented. Recommendations are made by the panel to assist the applicant school system to overcome obstacles which may preclude future Awards.

When the Award is granted, it is forwarded to the applicant school system with a letter of transmittal recognizing the achievement of excellence in school financial reporting. Additional recognition is provided at the Association's Annual Meeting and in its monthly journal, *School Business Affairs*.

Eligibility and Submission Requirements

A school system wishing to participate in the ASBO Certificate of Excellence Program must submit six (6) copies of its Comprehensive Annual Financial Report and six (6) copies of a representative Interim Financial Report to:

Executive Director
Association of School Business Officials of the United States and Canada
720 Garden Street
Park Ridge, Illinois 60068

These reports must be submitted together with a letter on a school system's official stationery requesting that the reports be evaluated to determine the extent to which they comply with ASBO's requirements for the Certificate of Excellence Award. The letter should be signed by the system's chief financial officer. A check for the required filing fee must be attached to the letter.

The review process is a service provided by ASBO to a school system. The filing fee will be used by the Association to finance the evaluation process and to

promote participation in the program through workshops and seminars. The fee schedule will be revised by periodic actions of the ASBO Board of Directors upon recommendation by the Executive Director.

Financial reports submitted for review should be forwarded to ASBO within six months after the end of the fiscal year covered.

Reports submitted to local, state, provincial or federal agencies to meet their specific requirements or independent audit reports should not be considered as normally fulfilling the complete requirements.

To be eligible for the Award, a school district's submission *must* meet the eligibility criteria specified by the Program. The Panel of Review will determine whether or not each submission meets these criteria.

When a submission meets the required criteria to be eligible for receiving the Award, the Panel of Review will use the established grading categories to make its recommendations and determine whether or not the Award will be granted.

The eligibility and grading categories are summarized as follows:

Eligibility Categories

1) All funds and account groups included in the report
2) Independent audit in accordance with generally accepted auditing standards which must be included in the annual financial report
3) Audits conducted by state agencies or others independent of the school system will be accepted in certain circumstances. The audit performed must be a full scope audit in accordance with generally accepted auditing standards together with the auditor's opinion on the financial statements of all funds and account groups prepared in accordance with generally accepted accounting principles.
4) Timeliness of submission

Grading Categories

1) Reporting in conformity with generally accepted accounting principles
2) *Additional required disclosures:* letter of transmittal; statistical section; and overall completeness of disclosure
3) *Readability and organizational efficiency:* Completeness of combined overview financial statements; using columnar combining financial statements by fund type; overall clarity and cohesiveness.

Certificate of Excellence in Financial Reporting by School Systems, a 16-page ASBO publication describing the Association's program to encourage and recognize excellence in school financial reporting and *Certificate of Excellence Self-Evaluation Document*, a working document that must accompany all financial reports submitted under the Certificate of Excellence Program, are available from ASBO Headquarters, 720 Garden Street, Park Ridge, IL 60068; Phone 312/823-9320.

About ASBO and Its Purpose

THE Association of School Business Officials of the United States and Canada, an international professional educational management-oriented organization, is the oldest and largest association in North America devoted exclusively to the improvement and advancement of school business management, public and private.

Founded in 1910 through the auspices of the U.S. Office of Education, ASBO is dedicated to researching, analyzing and publicizing improved methods of school business management in 23 specialties. ASBO's membership of about 5,500 active members is from all 50 states, 10 provinces of Canada and overseas.

An integral part of ASBO is its "Research Corporation," a publishing/research subsidiary devoted to advancing educational management at all levels by conducting and promoting significant research programs in all facets of school business management. Twenty-three research committees, staffed with several hundred "expert" generalists and specialists continually confront the biggest issues facing educators.

Statement of Purpose

The Association of School Business Officials of the United States and Canada is a nonprofit, educational organization dedicated to researching, determining and publicizing better methods of school business administration.

ASBO has as its concern the improvement of efficiency in school business management.

In today's highly competitive world, the demands made on the school business official's time and skill are increasing. At a time when school business operations have reached an unparalleled degree of complexity and the maintenance of efficiency and service has become a major problem, school business officials are being asked to perform their jobs with even greater precision and effectiveness.

In this environment, the Association of School Business Officials has an obligation to aid the modern school business official in the performance of his duties and responsibilities. ASBO does this by bringing to the attention of its members new and accurate management methods, tools, techniques and procedures that will enable them to better perform their management functions of planning, organizing, coordinating, controlling, evaluating, improving — AND the wise expenditure of the taxpayer's money with which they have been entrusted.

This is accomplished through the ASBO educational program of workshops, conferences, discussion groups, annual meetings and a far reaching publications program. It also includes the encouragement of courses and programs in the field by recognized and accredited colleges and universities, the sponsoring of research projects and the encouragement of other research projects in the field.

ASBO's monthly journal, SCHOOL BUSINESS AFFAIRS and its ASBO ACCENTS newsletter are publications representative of the ASBO educational program — "of school business management, by school business officials, for the improvement of school business administration."